

**DRAFT**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**  
**ENERGY DIVISION**  
Item 100 ID #2523  
**RESOLUTION E-3834**  
**August 21, 2003**

**R E S O L U T I O N**

Resolution E-3834. Southern California Edison for approval of its 2003 First Quarter Short-Term Procurement Plan Compliance Report demonstrating that electric and natural gas procurement activities during the period January 1 through March 31, 2003 were in conformance with the guidelines set forth in its Short-Term Procurement Plan (STPP) filed with the Commission on November 12, 2002, as modified on January 13, 2003.

By Advice Letter 1703-E filed on May 1, 2003.

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**SUMMARY**

This resolution approves Southern California Edison Company's (SCE) 2003 First Quarter Short-Term Procurement Plan Compliance Report (2003 Q1 Compliance Report) filed with Advice Letter (AL) 1703-E. At this time, our review of SCE's first quarter electric and gas procurement activities is limited to only compliance with SCE's Short-Term Procurement Plan. Eligibility of these items for cost recovery will be reviewed and determined in an Energy Resource Recovery Account (ERRA) proceeding.

Per Ordering Paragraph 8 of D.02-10-062, SCE filed its 2003 Q1 Compliance Report on May 1, 2003,<sup>1</sup> in order to demonstrate that its electric and natural gas procurement activities during the period January 1 through March 31, 2003 were in conformance with the guidelines set forth in its Short-Term Procurement Plan (STPP).

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<sup>1</sup> On April 8, 2003, the California Public Utilities Commission (Commission) granted SCE's request to extend the filing date to May 1, 2003.

SCE requested that, after review of this report by the Commission's Energy Division, the Commission issue a resolution at the earliest practical date finding that SCE's procurement activities during the first quarter of 2003 were in compliance with SCE's STPP.

The 2003 Q1 Compliance Report attached to SCE AL 1703-E contains Confidential Protected Material subject to the protections in the May 1, 2002 Protective Order issued in OIR 01-10-024 and pursuant to Public Utilities Code Section 583.

This resolution approves AL 1703-E, effective today.

## **BACKGROUND**

On October 29, 2001, the Commission issued R.01-10-024, an Order Instituting Rulemaking to Establish Policies and Cost Recovery Mechanisms for Generation Procurement and Renewable Resource Development. R.01-10-024 was issued to (1) establish ratemaking mechanisms to enable the California investor-owned utilities (IOUs), including SCE, to resume purchasing electric energy, capacity, ancillary services and related hedging instruments to fulfill their obligations to serve and meet the needs of their customers and (2) to comply with the requirements of Section 701.3 of the PU Code.

D.02-10-062, an Interim Opinion in R.01-10-024, adopted the regulatory framework under which the respondent utilities (SCE, PG&E, and SDG&E) shall resume full procurement responsibilities on January 1, 2003. As part of this framework, D.02-10-062 established a new balancing account for each utility, the Energy Resource Recovery Account (ERRA) to account for the "the cost of different types of energy resources" (p.60). This decision also outlined the "semiannual update process ... for fuel and purchased power forecasts and the ERRA mechanism" (p.62), shown here as corrected by D.02-12-074:

<b>Outline of the Energy Resource Recovery Account (ERRA) Process</b>		
<b>Date</b>		<b>Description</b>
Beginning January 2003		Track 2002 fuel and purchased power authorized revenue requirements against actual recorded costs in the ERRA.
February 1	PG&E	File applications proposing to establish annual fuel and purchased power forecasts and true up 2002 fuel and purchased costs.
April 1	Edison	
June 1	SDG&E	
August 1	PG&E	Review of balancing accounts, contract administration, URG expenses and least-cost dispatch.
October 1	Edison	
December 1	SDG&E	

In accordance with D.02-10-062, "once a utility's short-term procurement plan is approved, all transactions entered into in compliance with the procurement plan should be filed for tracking purposes in a quarterly advice letter with the Commission Energy Division [prior to consideration in an ERRA review]. The advice letter should include all information in the adopted master data request in Appendix B."<sup>2</sup> D.02-10-062 provided additional guidance on these quarterly filings:

"As with the short-term procurement process, utilities should file a quarterly compliance advice letter within 15 days after the end of each quarter detailing all transactions in compliance with the adopted plan. If a transaction falls outside of the approved plan, the utility should file an expedited application as detailed in Appendix C." (D.02-10-062, p.49)

"7. The utilities should file each quarter's procurement transactions that conform to the approved plan by advice letter. The advice letter should contain all information in the adopted master data request at Appendix B. **The Commission's Energy Division should review the transactions to**

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<sup>2</sup> D.02-10-062, page 46.

**ensure the prices, terms, types of products, and quantities of each product conform to the approved plan.** Consistent with AB 57, any transaction submitted by advice letter that is found to not comport with the adopted procurement plan may be subject to further review." (D.02-10-062, Conclusion of Law 7) (emphasis added)

"8. The utilities should by expedited application file transactions that do not conform to the adopted procurement plan. The procedures for expedited applications are set forth in Appendix C." (D.02-10-062, Conclusion of Law 8)

"O.P. 8. The respondent utilities shall file each quarter's procurement transactions that conform to their adopted procurement plan by Advice Letter within 15 days of the end of the quarter." (D.02-10-062, Ordering Paragraph 8)

In D.02-12-074, the Commission approved the short-term procurement plans, as modified by the respective confidential appendices for SCE, PG&E, and SDG&E. In addition, D.02-12-074 modified and clarified the cost recovery mechanisms and standards of behavior adopted in D.02-10-062. After review of the quarterly filings, Energy Division is expected to prepare a resolution for the Commission's consideration.

In D.03-06-067, the Commission granted in large part SCE's February 3, 2002 Petition for Modification of D.02-12-074, which modified Confidential Appendix B to D.02-12-074 regarding SCE's Modified Short-Term Procurement Plan for 2003:

"The requested relief we grant is to (1) eliminate Standards of Conduct 6 and 7; (2) specify for SCE a dollar amount for the disallowance cap under Standard of Conduct 4; (3) provide additional descriptive language for SCE on the operation of our adopted Consumer Risk Tolerance (CRT) protocol that clarifies SCE can enter longer term forward energy, gas, and other procurement hedges that are necessary to serve expected load, mitigate anticipated power conditions, and/or take advantage of cost-effective market opportunities; and (4) modify the standard for negotiated bilateral contracts for transactions entered into 31 days or less in advance of need with terms of one-calendar month or less." (D.03-06-067, p.1)

## **NOTICE**

Notice of AL 1703-E was made by publication in the Commission's Daily Calendar. Southern California Edison states that a copy of the Advice Letter was mailed and distributed in accordance with Section III-G of General Order 96-A.

## **PROTESTS**

SCE AL 1703-E was not protested.

## **DISCUSSION**

At this time, our review of SCE's first quarter electric and gas procurement activities is limited to only compliance with SCE's Short-Term Procurement Plan. Eligibility of these items for cost recovery will be reviewed and determined in an Energy Resource Recovery Account (ERRA) proceeding.

As required by D.02-10-062, Appendix B, Adopted Master Data Request for Monthly (sic) [Quarterly] Advice Letters, SCE was required to file specific information in its quarterly filing; Appendix B is included here as Attachment 1 to this resolution. SCE's response to each Master Data Request item is confidential and appears in its "First Quarter 2003 Report of Southern California Edison Company Regarding Compliance with the Short-Term Procurement Plan," as submitted with SCE AL 1703-E.

D.02-10-062, Conclusion of Law 7, stated that the "Commission's Energy Division should review the [quarterly] transactions to ensure the prices, terms, types of products, and quantities of each product conform to the approved plan. Consistent with AB 57, any transaction submitted by advice letter that is found to not comport with the adopted procurement plan may be subject to further review."

The Energy Division has reviewed SCE's 2003 Q1 Compliance Report according to these directives. Because SCE's 2003 Q1 Compliance Report contains Confidential Protected Material subject to the protections in the May 1, 2002 Protective Order issued in OIR 01-10-024 and pursuant to Public Utilities Code Section 583, our discussion of the details of these transactions is necessarily limited.

SCE utilized a range of product types, terms, and quantities in its first-quarter 2003 procurement transactions. The use of these product types, terms, and quantities conform to SCE's approved Short-Term Procurement Plan. Although SCE's approved Short-Term Procurement Plan include price forecasts, such price forecasts do not dictate a range of prices that restrict, or set limits on, the kinds of transactions SCE can execute. Rather risk metrics<sup>3</sup> can limit SCE's ability to conduct forward purchase transactions. A review of SCE's first quarter procurement plan compliance report and workpapers demonstrates that SCE's transactions were completed through processes (such as RFOs, broker exchanges, or bilateral contracts) which are consistent with SCE's approved STPP-03.

### **COMMENTS**

PU Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission.

Commission Rule 77.7 implements provisions of Public Utilities Code Section 311(g) for public review and comment by parties on Commission decisions and alternates. In the interest of public necessity<sup>4</sup> as set forth in Rule 77.7(f)(9), the Commission may reduce or waive the 30-day period for public review and comment for draft decisions (and resolutions) and may

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<sup>3</sup> SCE interpreted the Consumer Risk Tolerance (CRT) level adopted by the Commission in D.02-12-074 such that it eliminated its ability to execute forward transactions. However, the Commission clarified this point in D.03-06-067: "The clarification we provide gives SCE the flexibility to enter longer term forward energy, gas, and other procurement hedges that are necessary to serve expected load, mitigate anticipated power conditions, and/or take advantage of cost-effective market opportunities" (p.16).

<sup>4</sup> "Public necessity" includes, without limitation, circumstances where failure to adopt a decision before expiration of the 30-day review and comment period would place the Commission or a Commission regulatee in violation of applicable law, or where such failure would cause significant harm to public health or welfare. When acting pursuant to this subsection, the Commission will provide such reduced period for public review and comment as is consistent with the public necessity requiring reduction or waiver. Rule 77.7(f)(9), in part.

reduce, but not waive, the public review and comment period for alternates.

### **Comment Period on Draft Resolution E-3834**

On Monday, August 11, 2003, the Energy Division circulated draft resolution E-3834 for public comment via email to the R.01-10-024 service list. The draft resolution was also circulated the same day via email to SCE's Procurement Review Group (PRG). Comments were due by close of business Friday, August 15, 2003. There were no comments on the draft resolution.

### **FINDINGS**

1. D.02-10-062, at Ordering Paragraph 8, required SCE to file its 2003 First Quarter Short-Term Procurement Plan Compliance Report (2003 Q1 Compliance Report), in order to demonstrate that its electric and natural gas procurement activities during the period January 1 through March 31, 2003 were in conformance with the guidelines set forth in its Short-Term Procurement Plan (STPP).
2. After obtaining an extension from the Commission, SCE filed AL 1703-E on May 1, 2003 requesting approval of its 2003 Q1 STPP Compliance Report.
3. AL 1703-E was not protested.
4. At this time, our review of SCE's first quarter electric and gas procurement activities is limited to only compliance with SCE's Short-Term Procurement Plan. Eligibility of these items for cost recovery will be reviewed and determined in an Energy Resource Recovery Account (ERRA) proceeding.
5. D.02-10-062, Conclusion of Law 7, stated that the "Commission's Energy Division should review the [quarterly] transactions to ensure the prices, terms, types of products, and quantities of each product conform to the approved plan. Consistent with AB 57, any transaction submitted by advice letter that is found to not comport with the adopted procurement plan may be subject to further review."

**THEREFORE IT IS ORDERED THAT:**

1. The request of Southern California Edison Company for approval its 2003 First Quarter Short-Term Procurement Plan Compliance Report (2003 Q1 Compliance Report), in order to demonstrate that its electric and natural gas procurement activities during the period January 1 through March 31, 2003 were in conformance with the guidelines set forth in its Short-Term Procurement Plan (STPP), is approved.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on August 21, 2003; the following Commissioners voting favorably thereon:

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WILLIAM AHERN  
Executive Director



## **Attachment 1 to Resolution E-3834**

### **Appendix B to D.02-10-062**

#### **Adopted Master Data Request for Monthly Advice Letters**

The utilities shall file each month's transactions that conform to the approved procurement plan by advice letter. The Advice Letters must contain the following information:

- Identification of the ultimate decision maker(s) up to the Board level, approving the transactions.
- The briefing package provided to the ultimate decision maker.
- Description of and justification for the procurement processes used to select the transactions (e.g., Request for Offers, Electronic Trading Exchanges, ISO Spot Markets)
  - For competitive solicitations, describe the process used to rank offers and select winning bid(s).
  - For other transactional methods, provide documentation supporting the selection of the chosen products.
- Explanation/justification for the timing of the transactions (i.e., product term and rate of procurement)
- Discussion of the system load requirements/conditions underlying the need for the month's transactions.
- Discussion of how the month's transactions meet the goals of the risk management strategy reflected in the Commission-approved procurement plan (e.g., achieving lowest stable rates)
- Copy of each contract
- The break-even spot price equivalent to the contract(s)
- An electronic copy of any data or forecasts used by the utility to analyze the transactions.
- Utilities should provide a reasonable number of analyses requested by the Commission or the Procurement Review Group and provide the resulting outputs. Utilities should also provide documentation on the model and how it operates.
- The Commission is not precluded from seeking any other information under the provisions of the Public Utilities Code.

(END OF APPENDIX B)